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C O N F I D E N T I A L SECTION 01 OF 03 BAKU 000232

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TAGS: PGOV PREL AJ ENRG

SUBJECT: AZERBAIJAN: AMBASSADOR MANN DISCUSSES EUROPEAN ENERGY, NABUCCO, BTC WITH PRESIDENT ALIYEV

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Classified By: Ambassador Anne E. Derse, reasons 1.4 (b,d)

**¶1.** (C) SUMMARY. Referring to Shah Deniz Stage Two, ACG Associated and Deep Gas and the offshore "Umid" field which Socar is developing, President Aliyev said that Azerbaijan will have much gas available for export. He told Ambassador for Eurasian Energy Diplomacy Mann that "it was important for Azerbaijan to know "which to choose" between TGI and Nabucco." Aliyev was surprised of the recent Hungarian announcement in support of Southstream, coming just days after his state visit to Hungary during which his interlocutors were quite upbeat about Nabucco. Azerbaijan would need guarantees from the EU before committing to the Odessa-Brody oil pipeline project. Aliyev once again accused BP of "trying to steal" Azerbaijani oil, but said that the recent resolution of the profit split would lead to BTC expansion. Speaking of his recent trip to Turkey, Ambassador Mann told Aliyev that most of his time there was spent trying to better understand the GOT viewpoint on gas transit issues.  
END SUMMARY.

**¶2.** (C) On March 1 Eurasian Energy Coordinator Ambassador Steve Mann and Ambassador Derse met with President Aliyev at one of his dachas outside of Baku. Energy Officer was notetaker.

TURKEY

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**¶3.** (C) Ambassador Mann said much of his two days of energy talks in Turkey dealt with the GOT 15 percent netback scheme (reftel B). Although Energy Secretary Guler was a firm proponent of this idea, Mann thought the GOT had no fully unified policy in this regard: he had heard several variations on the basic theme. Turkish energy company BOTAS was no longer allowed to sign sales agreements, and in general no one in the Turkish energy sector was eager to be seen as propounding specific sales contracts, for fear that down the road they will be accountable if not culpable for what will be seen in retrospect as a bad deal, as has happened previously.

NABUCCO

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**¶4.** (C) Aliyev said that "too many countries are seeking to provide energy security to Europe," but Azerbaijan's policy is based on reality. Azerbaijan will have to consult to determine what to do and how it will seek to influence Turkmenistan. Azerbaijan will try to "continue Nabucco without Turkmenistan" if need be. The Bulgarian President was coming to Azerbaijan, partly to talk about Nabucco, but Azerbaijan cannot be sure about this project in light of

Hungary's changing position. It was important for Azerbaijan to know "which to choose" between TGI and Nabucco. Nabucco has more countries and so is more attractive to Azerbaijan, but TGI is more realistic, and Italy is "reachable."

LOTS OF AZERBAIJAN GAS

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¶ 15. (C) Aliyev said that there was much Azerbaijani gas that would be available for export. Azerbaijan was currently producing 27 billion cubic meters annually (bcm/a)(COMMENT: ACG produces approximately 11 bcm/a, all re-injected and therefore currently unavailable for export. Shah Deniz Phase One approximately 8.5 bcm/a, already sold; SOCAR produced approximately 6 bcm/a in 2007). Aliyev said SOCAR was drilling the offshore Umid field. Although GOAJ could talk to BP "anytime" about ACG Deep Gas, he has told SOCAR to start thinking seriously about developing deep gas itself. Azerbaijan has "billions and billions of dollars," and can start ACG Deep Gas development "immediately." Referring to Shah Deniz Phase Two, Umid and ACG Deep Gas, Aliyev said that Azerbaijan would be able to supply gas for both "Nabucco and TAP." (Comment: At one point Aliyev referred to Nabucco and TGI as Azerbaijan's main options, at another time to Nabucco and TAP. Given his previous comments in support of TGI, it is likely he said "TAP" here when he meant "TGI.")

¶ 16. (C) Warming to his theme of BP perfidy, Aliyev said that "BP was stealing our oil, a lot of it." There was supposed to be a shift in the profit split between the ACG Partners and the GOAJ in the third quarter of 2007, but "BP continued

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to sell our oil." SOCAR "found out," which led to "serious confidential discussions" between the Partners and the GOAJ,

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after which the Partners agreed to a 50-50 split as of January 2008, with the final split to 80-20 percent for the GOAJ to happen "soon." This, Aliyev said, would help clear the way for BTC expansion.(COMMENT: the ACG Consortium has decided that come April 1 the profit split would shift to 80-20 in favor of the GOAJ, although factoring in transportation costs it goes to 75-25 percent in favor of GOAJ. This would be done, as was the January 1, 2008 switch to 50-50, on a "provisional, without prejudice" basis, until all ACG Partners agree on a permanent solution. END COMMENT).

After this final shift, at which point SOCAR will be the main owner of ACG oil, the GOAJ can become the major shareholder of a Ceyhan refinery.

HUNGARY - RUMANIA - POLAND

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¶ 17. (C) Aliyev said the just-announced Russian-Hungary South Stream agreement surprised him, since when he had been there the previous week "everyone talked Nabucco and was excited about Azerbaijani gas." Southstream was not diversification, and "Hungary (especially PM Gyurcsany) was not behaving in a serious way." Conversely, Rumanian President Basescu was a "serious man of his word." In response to Mann's suggestion that Basescu have a "heart-to-heart" with Berdimuhamedov, Aliyev said that Berdimuhamedov "wouldn't listen to him" since the GOTX has no bilateral relations with Romania; it only does with Russia, Iran and the U.S. Polish President Kaczynski was a "sincere man, blunt and sometimes naive," but a real friend of the United States.

UKRAINE

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¶ 18. (C) Aliyev agreed with Ukraine PM Tymoshenko's statement that a country can't be run with two leaders, adding that President Yushchenko can't run Ukraine with only 13 percent popular support - "we don't know who is running Ukraine." Although Azerbaijan had joined the Sarmatia consortium as a

sign of support for the project to build a new network of oil pipelines between Odessa, Brody, Plotzk and Gdansk, giving USD two million towards the feasibility study, "sometimes Ukraine is not serious," and Azerbaijan would need guarantees from the EU before it committed to Odessa-Brody. He agreed with Mann that Odessa-Brody is only possible if Ukraine is a powerful and determined partner.

NATO SUMMIT

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¶9. (C) Aliyev said that he planned to attend the April NATO summit if invited, i.e. if heads of state from NATO partner countries are invited.

AFGHANISTAN

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¶10. (C) Ambassador Derse said that the USG would be asking NATO allies and partners to increase their participation in Afghanistan, and that she would be passing a menu of alternatives on how to do so to the MFA. Aliyev he "understood Azerbaijan must do something - we will do something," and asked that the USG "provide some options."

CORRUPTION

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¶11. (C) Aliyev said GOT President Erdogan had told him Turkish industrialist Ahmed Calik, a close friend and business partner of the late Turkmenbashi, was owed "hundreds of millions of dollars" by Turkmenistan. Commiserating on the pernicious effects of sweetheart deals by insiders with government ties, Aliyev continued that Calik was trying to force himself and Indian Oil Company into the deal whereby SOCAR was building a refinery at Ceyhan. There was also a delay in SOCAR's development of the Georgian Kulevi terminal. Aliyev said that Georgian President Saakashvili had asked GOAJ to buy this terminal, which originally belonged to the recently deceased Arkadi "Badri" Patarkatsishvili, so SOCAR ran the numbers and purchased it. Then the GOG tried to force SOCAR to accept specific "non-investing partners," which SOCAR did reluctantly, and it is now these partners who are causing problems. Ambassador Mann agreed that such business practices were a problem, adding that Chevron cooled

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to the Samsun-Ceyhan oil pipeline project after Calik insisted that he have the right to select all sub-contractors for the project. Aliyev said that "we never did such as this," as it would have damaged Azerbaijan's reputation.

ARMENIA

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¶12. (C) Aliyev asked why the USG had been "silent" on the February 19 Armenian Presidential elections and subsequent widespread civil unrest. He termed the rallies "serious." There had been ballot-stuffing, Sargsian had not won a true majority and the election had "not been legitimate." Kocharyan had evidently asked the diplomatic community to "congratulate" Sargsian, but evidently only Putin had done so. No matter how the crisis ends, the Armenian government cannot ignore the popular mood. Sargsian was a "military figure, an apparatchik," and not a politician.

¶13. (C) COMMENT: As in previous meetings, President Aliyev was perhaps overly optimistic in his assessment of GOAJ gas available for export, since other than Shah Deniz Phase Two gas there are no new significant sources of Azerbaijani gas currently being actively developed. As such, the USG needs to continue to suggest to the GOAJ that if it wants to implement its goal of increasing GOAJ energy supply to Europe, it needs to prove up its reserves systematically and expeditiously, and solve outstanding problems with the ACG Partnership so that ACG Deep Gas can begin to be developed.

END COMMENT.

¶14. (U) Ambassador Mann has cleared on this cable.  
DERSE